

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 15, 2013

Volume 6 Issue 222

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.

Short-term Outlook

The Bottom Line

Evidence is pointing down and the SPX is overbought. This suggests a bearish edge. But I have not been inclined to fight liquidity and momentum all year, and that has not changed. So I will not be looking to take on any short exposure.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
November 15, 2013	Top 10% 10-day range opex Thurs.	1-5 days	Bearish	-1.70%
November 14, 2013	Gap dn reverse to 50-day high	1-2 days	Bearish	-1.60%
Active - Long Term				
October 25, 2013	SPX > 50,2 Bollinger Band	1-50 days	Bullish	
October 21, 2013	70% Advancing Issues 3 Days In Row	1-75 days	Bullish	10.60%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
April 29, 2013	6 months higher in a row	1-10 months	Bullish	14.30%
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
November 8, 2013	Outside reversal high to low	1-5 days	Bullish	2.10%

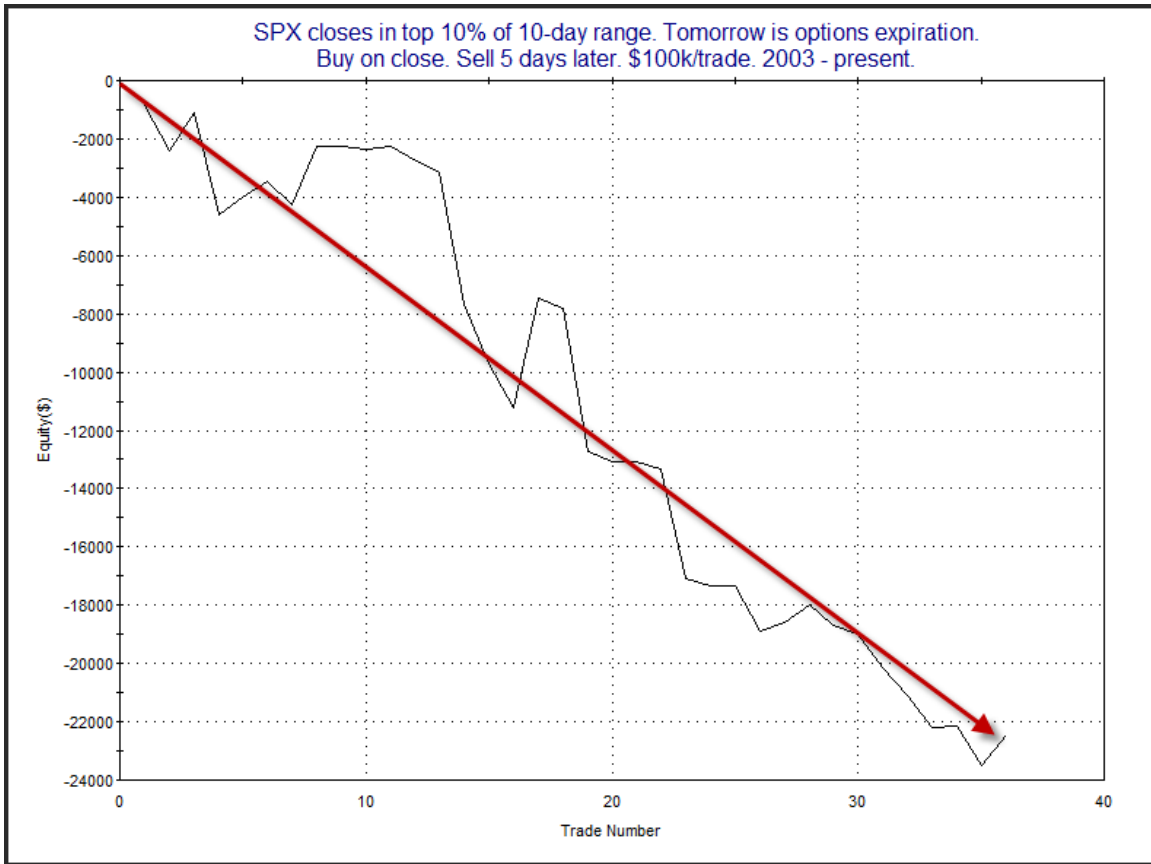
The Evidence

Thursday saw the rally continue – at least for most indices. The SPX gained 0.5%, and the Nasdaq rallied 0.2%, but the Russell 2000 fell 0.1%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % was 71%. Total NYSE volume declined some from Wednesday’s level.

The study below is one that has triggered the last couple of months. I showed it most recently in the 10/18/13 Letter. It looks at times the market closed at a high level just before options expiration. It generally has been a bad time for an overbought market.

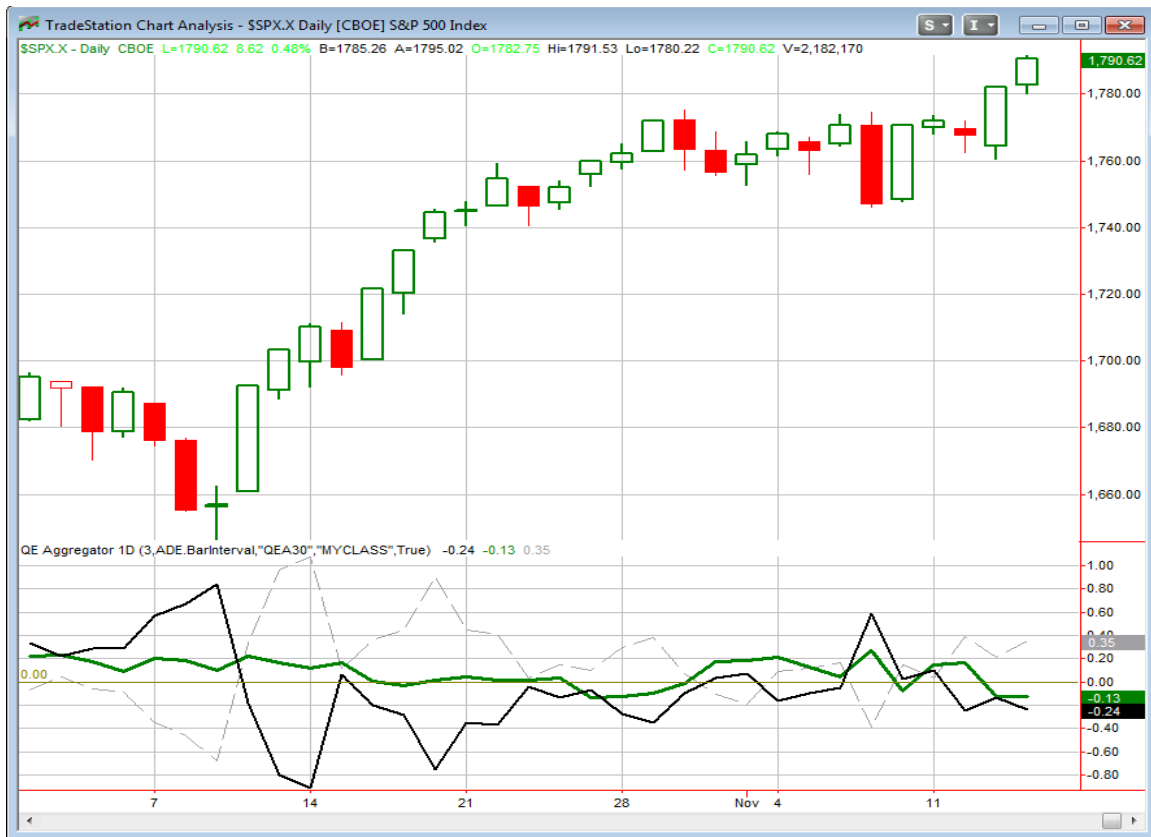
SPX closes in top 10% of 10-day range. Tomorrow is options expiration. Buy on close. Sell X days later. \$100k/trade. 2003 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-22,438.04	36	12	24	33.33	860.87	3,768.30	-1,365.36	-4,932.90	0.63	0.32	-623.28
4	-20,389.80	36	13	23	36.11	800.12	1,994.25	-1,338.75	-2,899.20	0.60	0.34	-566.38
3	-11,109.96	36	18	18	50.00	648.63	2,166.00	-1,265.85	-2,828.70	0.51	0.51	-308.61
2	-10,459.79	36	21	15	58.33	463.55	1,588.40	-1,346.29	-3,784.65	0.34	0.48	-290.55
1	-3,516.99	36	20	16	55.56	374.78	2,286.84	-688.28	-2,875.60	0.54	0.68	-97.69

The numbers here are fairly compelling. To confirm the downside edge, I also produced a profit curve. The profit curve is based on a 5-day holding strategy.



The curve would seem to confirm the downside edge. Overbought into seasonal weakness often leads to a pullback.

I have updated the [Aggregator](#) chart below.



With tonight's bearish study factored in the green Aggregator Line remains below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also remained below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is short-term overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator signal to remain short.

With the current active studies, expectations are slated to remain bearish on Friday. Of course this could change if additional bullish evidence emerges. The Differential Pivot will be 1771.65 on Friday. That is 1.1% below Thursday's close. So it would take a sizable close lower in order to move the SPX from overbought to oversold versus expectations.

Combining the bearish study last night with the one tonight we have somewhat compelling downside evidence. In a "normal" market environment this would certainly be enough to get me to take a short position. But 2013 has been anything but normal. With the Fed backing it up, the 2013 version of the market has bullied bears relentlessly. I've been resolute about not shorting until Fed policy changes. And since that approach

has helped me greatly so far, I will continue to stick with it. We may be near a point where hedging longs or lightening up and taking partial profits could be a good idea. But I don't track those kinds of trade ideas in the letter. And I am still wary of outright shorting. So there will be nothing new from me tonight.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/11 – somewhat bullish

The intermediate-term outlook was last updated in the 11/11/13 letter. Link below:

[2013-11-11 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

None.

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